

INTERNET TECHNOLOGY

09 April 2021

Zomato: Leading Indian foodtech play

Zomato's latest pre-IPO funding round elevates its valuation to US\$ 5.4bn vs. US\$ 3.9bn in Dec'20, on the back of (1) recovery from the initial Covid-led volume slump, (2) improving unit economics, and (3) successful listing of US counterpart DoorDash. Despite DoorDash's stronger annual revenue and margins, we believe Zomato's valuation is justified given potential demand scalability in India's growing, duopolistic market. INFOE which holds 18.4% stake (new Zomato-led TP of Rs 2,780 vs. Rs 2,680) remains a SELL because of weakness in its core businesses.

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Food delivery business rapidly emerging from Covid slump: Covid-19 caused food delivery volumes in India to drop 90% during the initial lockdown phase in Mar'20 due to migration away from large cities. For food delivery app Zomato, the pandemic has reduced revenues but accelerated its journey toward profitability as unit economics improved with higher average order value and lower delivery costs, discounts and staff expenses.

Margins at peak levels; expected to settle lower: Zomato's margin contribution per order has improved dramatically from a loss of -Rs 47 in Q1FY20 to +Rs 27 in Q1FY21 (Fig 16). Management expects this metric to eventually normalise to Rs 15-20 per order and also indicated that the average monthly burn rate has shrunk from US\$ 12mn in FY20 to US\$ 1mn in FY21.

Uptick in GMV: Zomato's gross merchandise value (GMV) nearly doubled in FY20, partly aided by its Uber Eats acquisition in Jan'20. A swift transition enabled retention of 97% of combined GMV. Following the Covid outbreak, GMV fell 80% from the FY20 peak before returning to 60% of pre-Covid levels in Jul'20.

Spillover effect from DoorDash valuation: In Dec'20, US-based food delivery app DoorDash's pre-IPO valuation was pegged at US\$ 16bn. Its latest valuation is a whopping US\$ 55bn given strong topline growth, high customer retention and a favourable profit trajectory (46% YoY decline in EBITDA loss in FY20).

This stellar valuation appears to have rubbed off on Zomato which closed a US\$ 250mn funding round in Feb'21 ahead of its planned IPO later this year (source: media reports), valuing it at US\$ 5.4bn from US\$ 3.9bn in Dec'20. Although DoorDash operates in a far more mature market, we believe Zomato's valuation is justified given immense growth potential in India's densely populated, digital-driven, duopolistic food delivery market (Swiggy the only credible competition).

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
INFOE IN	4,842	2,780	SELL

Price & Target in Rupees | Price as of 8 Apr 2021

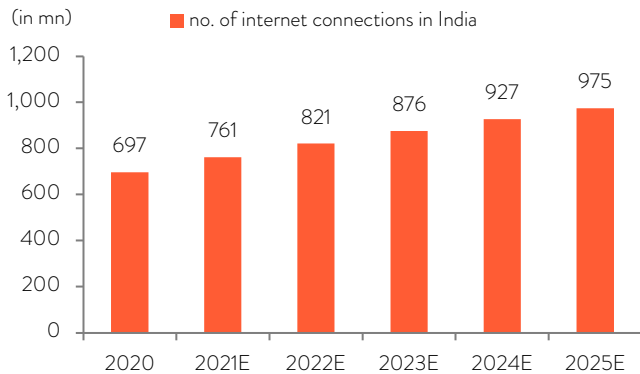


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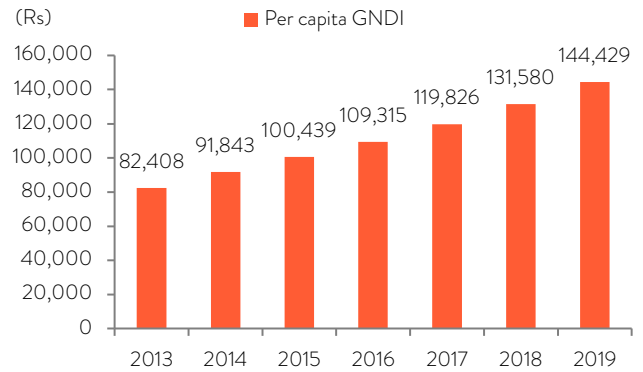
Focus charts

FIG 1 – INDIA’S SMARTPHONE/INTERNET USER BASE ON STRONG GROWTH TRAJECTORY



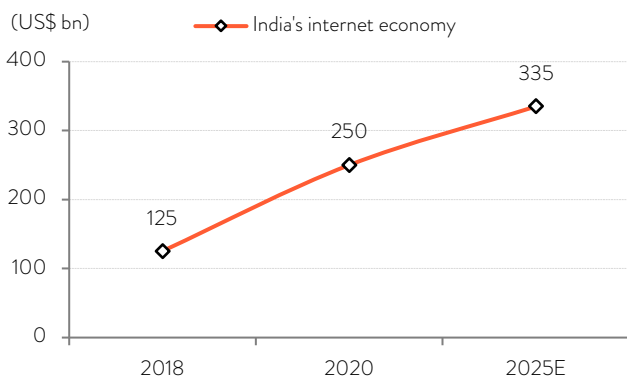
Source: BOBCAPS Research, Statista

FIG 2 – PER CAPITA DISPOSABLE INCOME GROWING AT A STEADY RATE



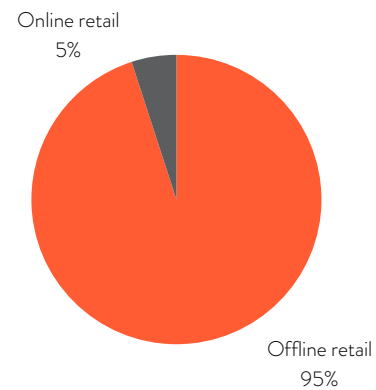
Source: BOBCAPS Research, RBI | GNDI – Gross national disposable income

FIG 3 – INDIA’S INTERNET ECONOMY BOOMING



Source: BOBCAPS Research, IBEF

FIG 4 – SUBSTANTIAL HEADROOM FOR GROWTH IN ONLINE RETAIL



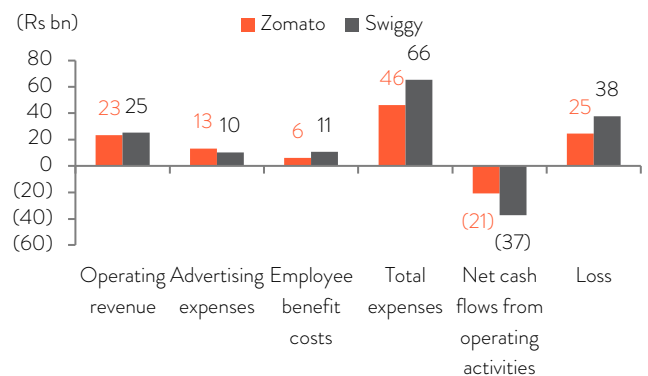
Source: BOBCAPS Research, IBEF

FIG 5 – PEER COMPARISON SHOWS ZOMATO’S SIMILAR TRAJECTORY TO DOORDASH

US\$ mn	FY19	FY20	YoY growth (%)
Zomato			
Revenue	192	394	105
EBITDA loss	277	293	6
GMV	718	1,496	108
Swiggy			
Revenue	152	410.5	170
EBITDA loss	318	544.5	71
GMV	NA	NA	
DoorDash			
Revenue	885	2,886	226
EBITDA loss	584	316	(46)
GMV	8,039	24,664	207

Source: BOBCAPS Research, Company

FIG 6 – ZOMATO’S DECLINING NET LOSSES VIS-À-VIS SWIGGY IN 2020



Source: Company

Global foodtech market

Across the globe, technology is the newfound ingredient in people's diet. The global food-technology market totalled US\$ 220.3bn in 2019 and is expected to clock a 6% CAGR over 2020-27 to US\$ 342.5bn. The biggest chunk of value from foodtech is expected to come from China at US\$ 57bn by 2021, followed by US\$ 28bn from the US, US\$ 23.3bn from Europe and US\$ 7bn from India.

China is the biggest market in terms of volume, but the US and Europe are far ahead in terms of average order size. The US grew at 95% YoY in 2019, followed by 80% growth from Asia. However, the US and European markets are far more fragmented than those in India and Asia and do not enjoy the same demographic dividends.

FIG 7 – COMBINED VALUE OF FOODTECH INDUSTRY REGION-WISE

Combined value (US\$ bn)	US	Europe	Asia
2018	37	31	55
2019	72	43	99
YoY growth (%)	94.6	38.7	80.0

Source: BOBCAPS Research

FIG 8 – MAJOR FOODTECH MARKETS ACROSS THE GLOBE

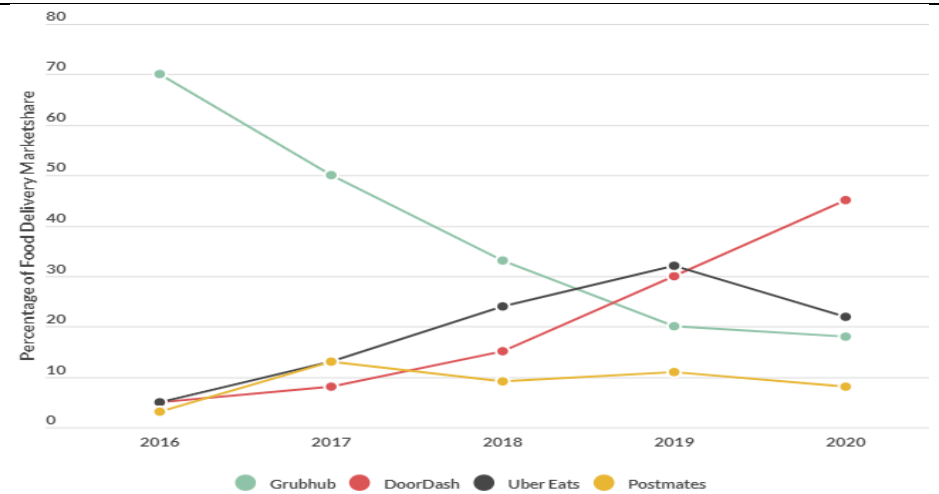
Parameters	US	Europe	China	India
Number of orders/ day (mn)	2.6	0.7	22	1.3
Key player	DoorDash	Just Eat	Meituan Dianping	Zomato
No. of restaurants serviced /day (mn)	0.39	-	5	0.15
No. of orders/restaurant/day	>10	8.2	4.4	10
Market share of top player (%)	45	50	32.2	50
Order size (US\$)	33-37	26.4	7-10	3.6
Number of cities covered	4,000	100-200	1,300-2,000	450-500
Other remarks	60% of US consumers order delivery or takeout once a week	80% of UK users of food delivery apps never or rarely switch between platforms	In 2020, >40% of internet users in China had used online food delivery services	As of 2019, millennials formed ~63% of India's online food delivery user base

Source: BOBCAPS Research

US

The US foodtech market is in the range of US\$ 18bn-20bn and is fragmented in nature with four key players – DoorDash & Caviar (combined), Uber Eats, Grubhub and Postmates, along with a few other smaller players. DoorDash and Caviar together currently have over 50% market share.

FIG 9 – FRAGMENTED US FOODTECH MARKET

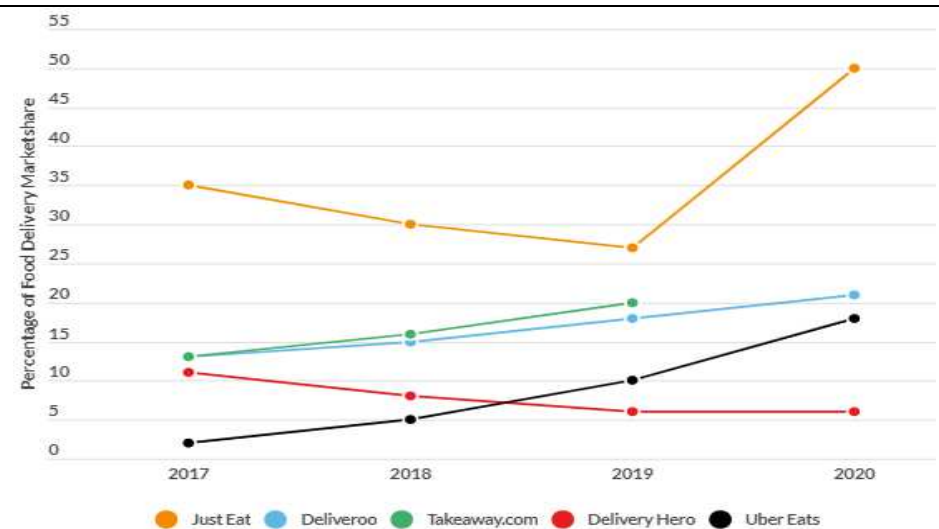


Source: BOBCAPS Research | Business of apps

Europe

Revenue from online food delivery in Europe is expected to reach US\$ 23.3bn by 2021 and US\$ 25bn by 2023, with an estimated CAGR of 7.06% over 2021-24. According to Dealroom data, over EUR 1.6bn was invested in European food logistics and delivery businesses in 2019.

FIG 10 – MARKET SHARE OF FOOD DELIVERY APPS IN EUROPE



Source: BOBCAPS Research | Business of apps

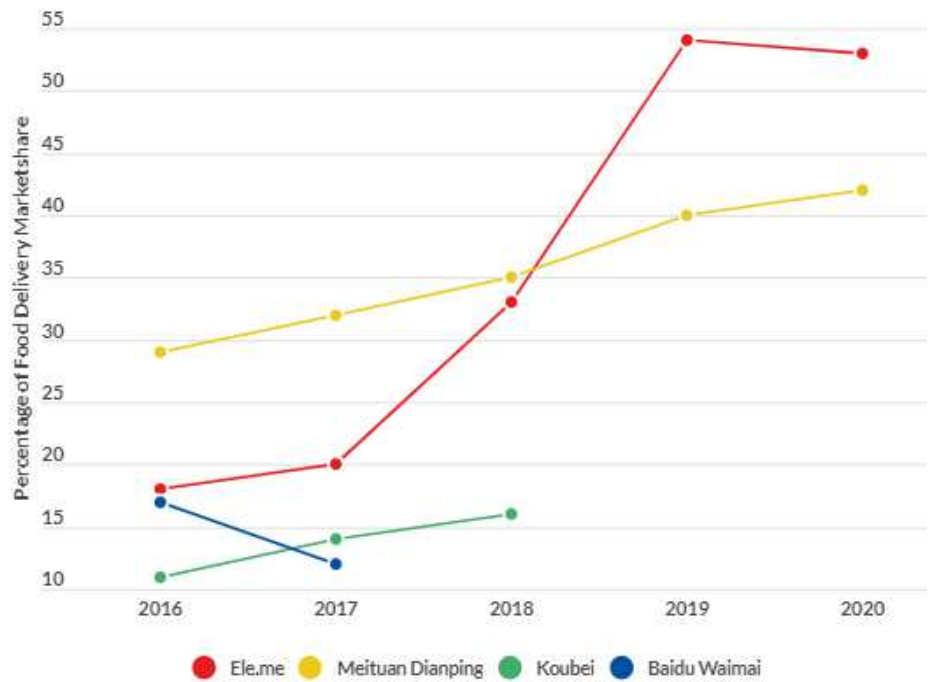
Grubhub–Just Eat Takeaway deal

In Apr’20, a US\$ 7.8bn merger between Just Eat and Takeway.com created one of the largest food delivery groups in the world. Later in June, the merged entity Just Eat Takeaway announced that it was acquiring US-based online food delivery platform Grubhub for US\$ 7.3bn. With this, Just Eat Takeaway gained Grubhub’s 23% market share in the US. This acquisition was an all-share deal – 1 Grubhub share was swapped for 0.67 shares of Just Eat Takeaway at an implied value of US\$ 75.15 for each Grubhub share. The deal led to increased scale, competitiveness, diversity and cash flow of the combined business.

China

China currently has a large base of 300mn active users on online delivery portals, up from 114mn users in 2016. Revenue from online food delivery is expected to reach US\$ 57bn by 2021, with an estimated CAGR of 5.9% over 2021-24.

FIG 11 – MARKET SHARE OF FOOD DELIVERY APPS IN CHINA

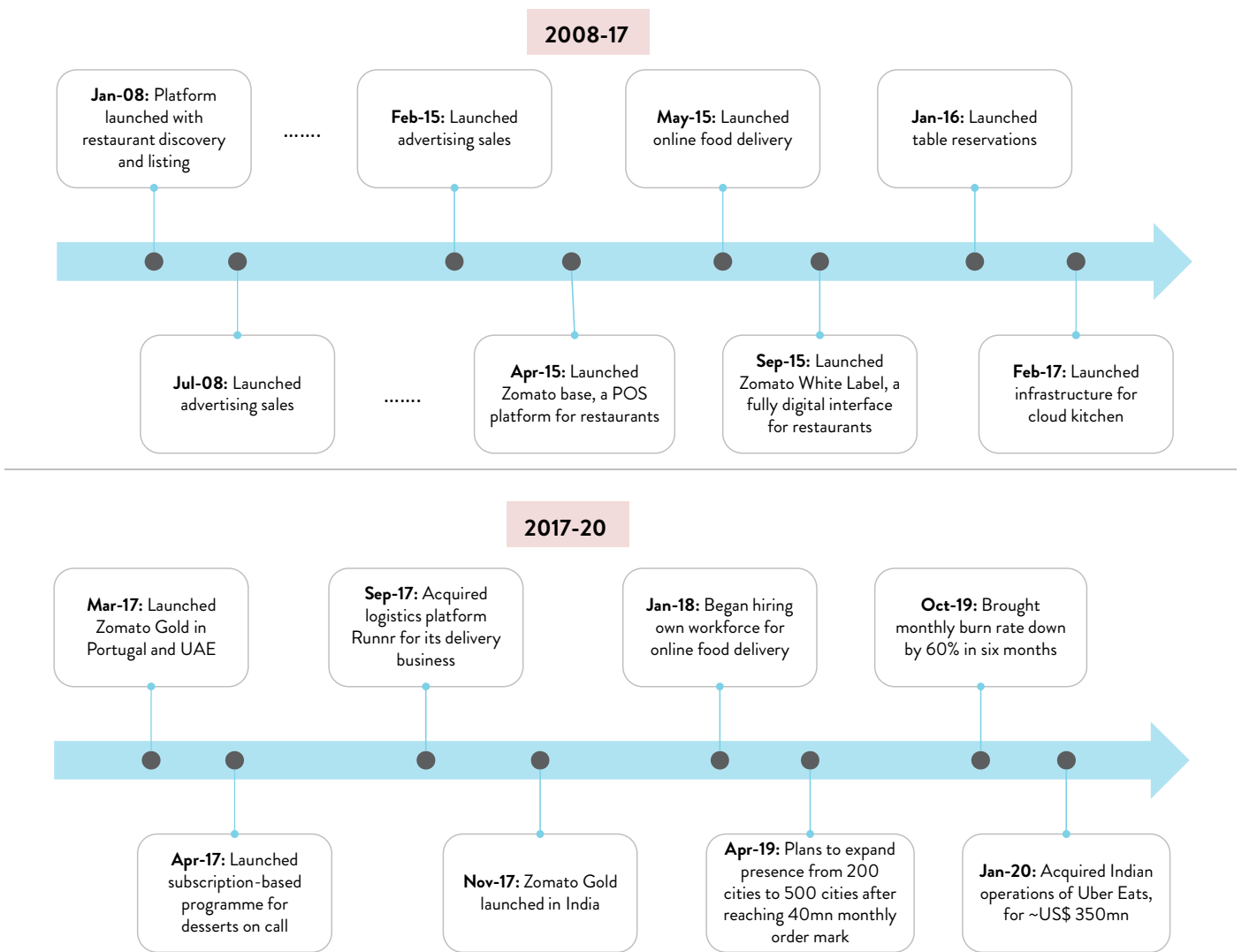


Source: BOBCAPS Research | Business of apps

Indian foodtech market

Per BCG, the Indian foodtech market was pegged at ~US\$ 4bn in 2020 and is expected to clock a ~40% CAGR to US\$ 7.5bn-8bn by 2022. Zomato is a pioneer in the Indian foodtech space, having begun operations as a restaurant listing portal in 2008. Swiggy later made an entry in 2014 as a food delivery platform, prompting Zomato to follow suit. The domestic market remains a duopoly between the two players, with Zomato and Swiggy constituting ~90% of market share. Zomato now commands over 50% market share following its Jan'20 acquisition of Uber Eats, up from ~27% in 2019, as per Businesswire.

FIG 12 – ZOMATO'S MILESTONES



Source: BOBCAPS Research, Company

Road to a Zomato–Swiggy duopoly

Zomato takes over Uber Eats

Zomato acquired food delivery platform Uber Eats in an all-stock deal in Jan'20, which gave Uber a 9.99% stake in the company. The acquisition significantly increased Zomato's hold in the food delivery market, raising its market share to 55% at the time. Uber Eats had entered the Indian food delivery market in 2017 and scaled the business in 41 cities with close to 65,000 riders delivering food from 26,000 restaurants. However, India's hyper-competitive environment has been a drag on financials.

Ola buys Foodpanda

Ride-hailing app service Ola bought online food delivery platform Foodpanda in 2017 in an all-stock deal, besides infusing US\$ 200mn into Foodpanda's India operations. This deal was expected to mark Ola's foray into the food delivery market, but its operations were shuttered within 18 months of the deal because of deep discounts offered by incumbents Zomato and Swiggy. Foodpanda has since solely focused on running cloud kitchens, moving away from the food delivery business.

Zomato and Swiggy hold sway in a booming market

With the removal of competition from Foodpanda and Uber Eats, the road to a duopolistic market dominated by Zomato and Swiggy was paved post 2017. According to a report by BCG, India's online food ordering market is expected to touch US\$ 7.5bn-8bn by 2022 vs. ~US\$ 4bn currently. The reach of food aggregators has increased six-fold over 2017-19. Also, the average time spent by Indians on exploring and ordering food has increased from 32 minutes in 2017 to 72 minutes in 2019.

Cloud kitchens fail to take off

In recent times, cloud kitchens – which are kitchens built specifically for food preparation and delivery purposes – have mushroomed across metro cities. These are also called ghost, commissary, shared or virtual kitchens. Sometimes, one or a group of restaurants rent their services to prepare food purely to meet takeaway demand. These are usually fully technology-enabled in order to rapidly adapt and optimise data in real time so as to predict the kind and timing of food demand.

Multiple factors have contributed to the increased demand for cloud kitchens: (1) growing penetration of food delivery apps, (2) a rising number of gig workers, (3) high real estate prices in metro cities rendering the cost of operating a full-fledged restaurant expensive, and (4) stronger demand for food delivery.

Cloud kitchens were deemed to be one of the most attractive business segments in India's foodtech industry, drawing even more funding than the food delivery segment in 2019. However, Covid-19 caused many of these businesses to shut down. Though a seemingly perfect idea on paper, scaling up cloud kitchens has proved difficult as customers expect low prices while brand equity is hard to build without any physical space.

FIG 13 – CLOUD KITCHEN PROS AND CONS

Benefits	Disadvantages
Low overheads	Total reliance on delivery apps; higher commission cost
Better efficiency	Increased competition
Lower marketing spends	Difficulty in raising prices
Real-time adaptability	Building brand equity a challenge

Source: BOBCAPS Research

Swiggy had opened its cloud kitchen arm 'Swiggy Access' in 2017 but was forced to shut many outlets as demand waned during the pandemic. Zomato had already closed its cloud kitchen business – ZIS (Zomato Infrastructure Services) – in 2017 due to tough competition from Swiggy and Uber Eats which made it difficult to scale ZIS quickly. Currently, the top 10 cloud kitchens in India are: (1) Faasos, (2) Behrouz Biryani, (3) Oven Story, (4) Box8, (5) Mojo Pizza, (6) Biryani by Kilo, (7) FreshMenu, (8) Firangi Bake, (9) Khichdi Experiment, and (10) Sweet Truth.

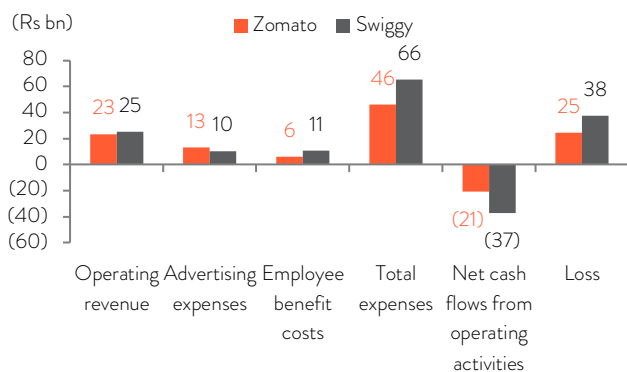
Why Zomato merits premium valuations

US-based food delivery app DoorDash has garnered a pre-IPO valuation of US\$ 16bn, ~3x that of Zomato’s current US\$ 5.4bn valuation, while its FY20 revenue is 7.3x Zomato’s. Despite this disparity, we believe Zomato’s valuation is justified given improving operating metrics coupled with the immense potential for growth in India’s densely populated, internet-savvy and duopolistic food delivery market where Swiggy is the only other competitor of note.

Improving operating metrics

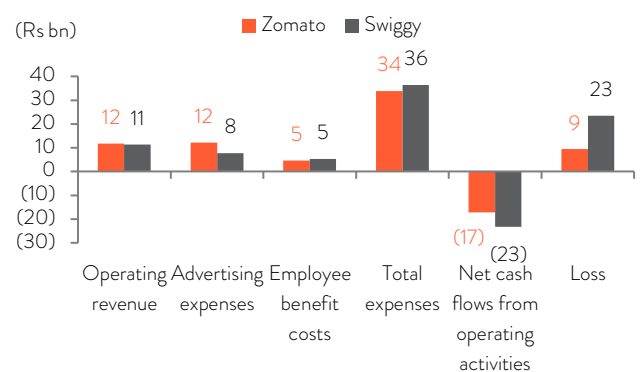
- Zomato has clocked a 108% YoY increase in GMV in FY20, which albeit lower than DoorDash’s growth rate of 207%.
- Zomato appears headed for a faster turnaround, with EBITDA losses rising just 6% YoY vs. 71% higher losses for Swiggy in FY20 (Fig 17).
- The company extended its Gold/Pro loyalty discount programme by four months for ~26,000 users despite Covid, whereas the Swiggy Super loyalty scheme ground to a halt for a couple of months during the initial lockdown phase (see our detailed Zomato-Swiggy comparison on Page 14).

FIG 14 – AGGRESSIVE COST MANAGEMENT HELPED ZOMATO CURB 2020 EBITDA LOSSES



Source: BOBCAPS Research, Company, TechCircle

FIG 15 – 2019 EBITDA LOSS ALSO FAR LOWER THAN SWIGGY'S



Source: BOBCAPS Research, Company, TechCircle

FIG 16 – FOOD DELIVERY UNIT ECONOMICS OF ZOMATO



Source: BOBCAPS Research, Company

FIG 17 – PEER COMPARISON

(US\$ mn)	FY19	FY20	YoY growth (%)
Zomato			
Revenue	192	394	105
EBITDA Loss	277	293	6
GMV	718	1,496	108
Swiggy			
Revenue	152	410	170
EBITDA Loss	318	544	71
GMV	NA	NA	
DoorDash			
Revenue	885	2,886	226
EBITDA Loss	584	316	(46)
GMV	8,039	24,664	207

Source: BOBCAPS Research, Company

MAJOR FOODTECH PLAYERS

US	Europe	Asia
Instacart	Wolt	Zomato
OpenTable	Takeaway	Swiggy
Postmates	Just Eat	BigBasket
Toast	Deliveroo	Grofers
Grubhub	Delivery Hero	Ele.me
DoorDash	HelloFresh	Meituan
Indigo	Zooplus	
Chewy	The Hut	
ifood	Glovo	
Impossible		
Sweetgreen		
Uber Eats		
Beyond Meat		

Source: BOBCAPS Research

Strong domestic market tailwinds

India food delivery space a fast-growing duopoly

The Indian foodtech market is now a duopoly between Zomato and Swiggy, rendering it largely unnecessary for either player to give prolonged discounts and also raising switching costs for customers. Being the oldest player, Zomato has the first-mover advantage besides which its moats of large scale, better unit economics and improving profitability are strong enough to fend off potential future rivals, in our view.

Also, though the Indian market is far less mature than the US, it is much denser, larger and less fragmented, creating the perfect opportunity for expansion. The US has three top players – DoorDash, Grubhub and Uber Eats – as opposed to

two in India. Two other smaller players also operate in the US, i.e. Postmates and Caviar, further increasing competition. Similarly, food delivery in Europe and China are also multi-player markets (see table alongside).

Multiple demographic tailwinds outweigh headwinds

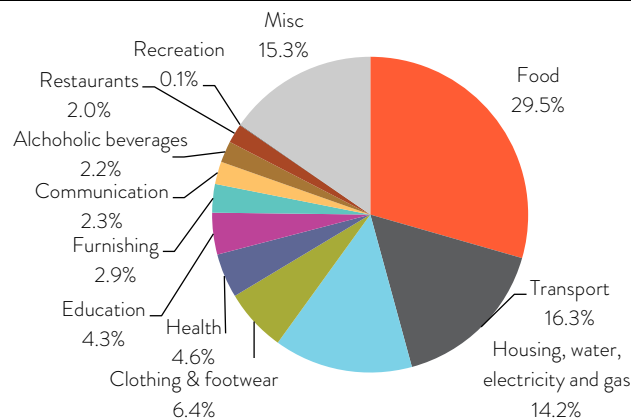
We acknowledge key headwinds in the Indian market including (1) lower GDP per capita, (2) lower discretionary spending power (~10% of the US), and (3) a 30% share of food spending already in the average Indian’s discretionary spend, thus leaving less room for growth compared to geographies such as the US and China.

FIG 18 – INDIA’S DISCRETIONARY SPEND LAGS BEHIND GLOBAL ECONOMIES

Latest available figures (US\$)	India	US	China
GDP/capita	6,284	63,051	17,206
Discretionary spending*	3,966	37,903	5,548
Per capita food spend per year	372.2	2,626.2	814.5

Source: BOBCAPS Research, IMF, World Bank, Knoema.com | *Household final consumption expenditure

FIG 19 – DISCRETIONARY SPENDING PIE OF AVG. INDIAN HOUSEHOLD



Source: BOBCAPS Research, MoSPI

That said, India’s population density is ~13x of the US and ~3x of China, which is a significant positive for the foodtech industry as a larger number of orders can be serviced per unit distance covered. Also, the country’s ~55% internet penetration leaves room for expansion vis-à-vis highly saturated markets such as the US and China.

Key growth drivers

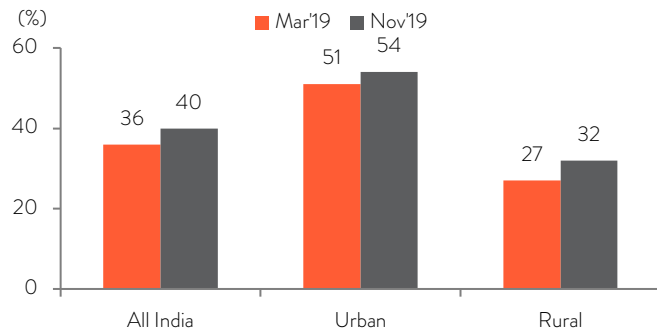
- Rising internet and smartphone use:** Internet penetration following the Reliance Jio launch in 2017, especially in tier-II and tier-III cities, has been a growth catalyst for food delivery startups. Per Statista, the Indian smartphone user base is set to grow 1.7x during 2019-22, with the number of internet connections expected to reach 975mn by 2025.

FIG 20 – INDIA INTERNET PENETRATION & POPULATION DENSITY TAILWINDS

	India	US	China
People per sq km	455	36	148
Internet penetration (% of population)	55.4	96.3	63.3

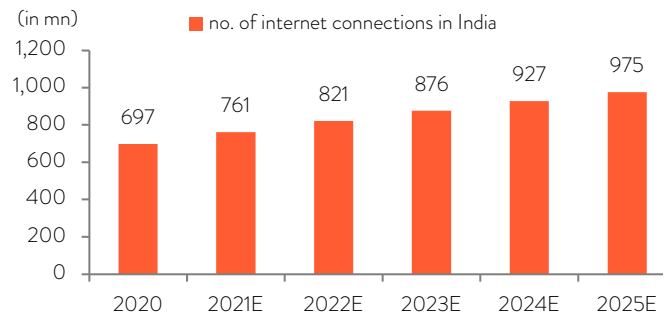
Source: BOBCAPS Research, World Bank

FIG 21 – INTERNET PENETRATION HAS HEADROOM TO IMPROVE



Source: BOBCAPS Research, IAMAI

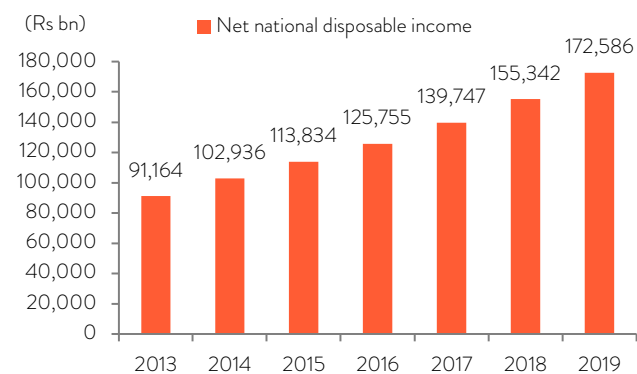
FIG 22 – RISING NUMBER OF INTERNET CONNECTIONS IN INDIA



Source: BOBCAPS Research, Statista

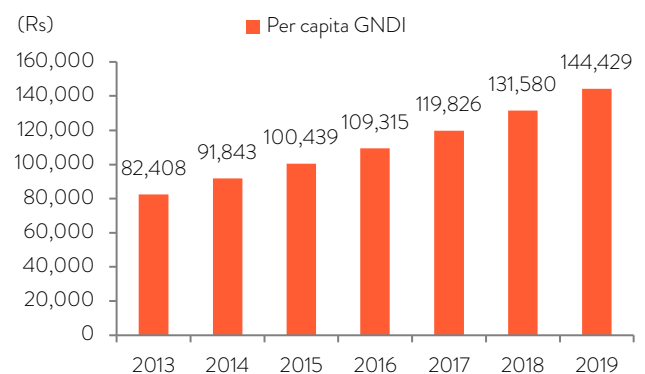
- Increasing disposable income:** Though lagging far behind China and the US, India's disposable income level has been growing at a steady rate of 10-13% YoY and its per capita disposable income has been rising 9-10% YoY since CY15.

FIG 23 – STEADY GROWTH IN NATIONAL DISPOSABLE INCOME...



Source: BOBCAPS Research, RBI

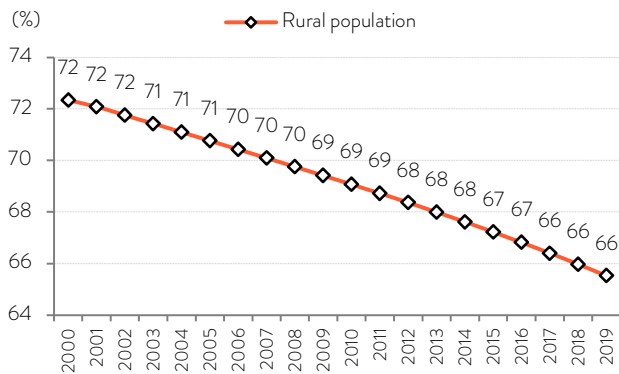
FIG 24 – ...AND PER CAPITA DISPOSABLE INCOME



Source: BOBCAPS Research, RBI

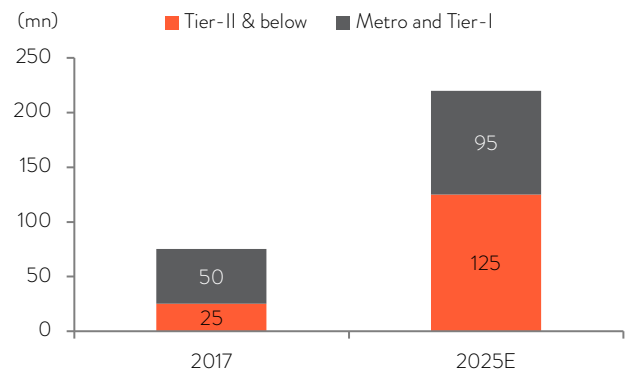
- Changing customer demographics:** Rapid urbanisation of the Indian population will give a growth impetus to food aggregators as more people shift to metro cities for work. Demand is also expected to surge from lower tier cities, for which food aggregators will have to increase their geographical footprint and go deeper into India's interiors. As per IBEF, online shoppers from smaller cities and town are expected to grow at a blistering 400% over 2017-25 vs. 90% growth from tier-I cities.

FIG 25 – INCREASING URBANISATION TO LEND IMPETUS TO FOOD AGGREGATORS



Source: BOBCAPS Research, World Bank

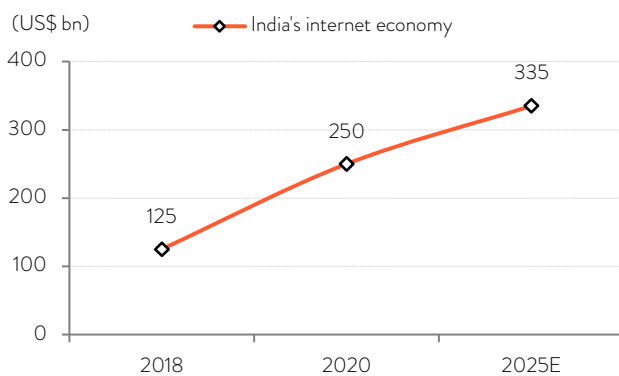
FIG 26 – MORE ONLINE SHOPPERS TO COME FROM LOWER TIER CITIES



Source: BOBCAPS Research, IBEF

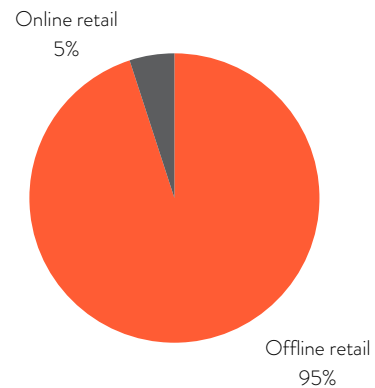
- Increased appetite for e-commerce:** Online retail has grown from 2.9% of India’s overall retail market in 2018 to 5% in 2020. As per IBEF, online retail is estimated at 25% of the country’s organised retail market and expected to reach 37% by 2030. Over the next five years, the agency estimates that 300mn-350mn shoppers will be added to the Indian e-retail industry, accelerating the GMV to US\$ 100bn-120bn by 2025. India’s overall internet economy is also expected to grow from US\$ 250bn in 2020 to US\$ 335bn in 2025.

FIG 27 – INDIA’S INTERNET ECONOMY TO CONTINUE TO EXPAND



Source: BOBCAPS Research, IBEF

FIG 28 – SUBSTANTIAL HEADROOM FOR GROWTH IN ONLINE RETAIL



Source: BOBCAPS Research, IBEF

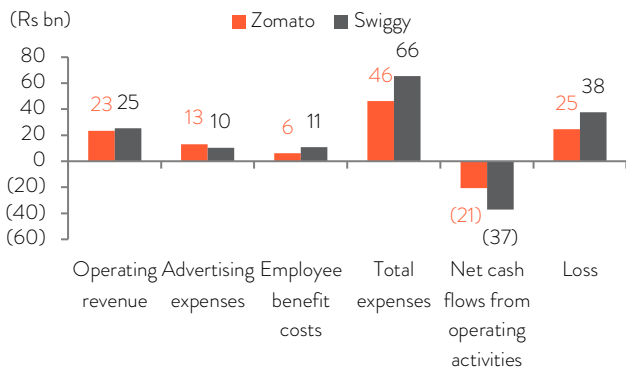
Zomato vs. Swiggy

Swiggy and Zomato have been at loggerheads to gain market share in India’s vast food delivery market since Swiggy entered the space in 2014. Swiggy has centered its service around food delivery whereas Zomato started as a restaurant listing site. While Zomato has been around since 2008, both players started the online food delivery business in 2014-15. Over time, Swiggy has captured a strong foothold in India’s southern states. Its operations are restricted to India while Zomato operates in the UAE, Sri Lanka, Qatar, the UK, the Philippines and South Africa, besides India.

Financials – Zomato moving towards profitability

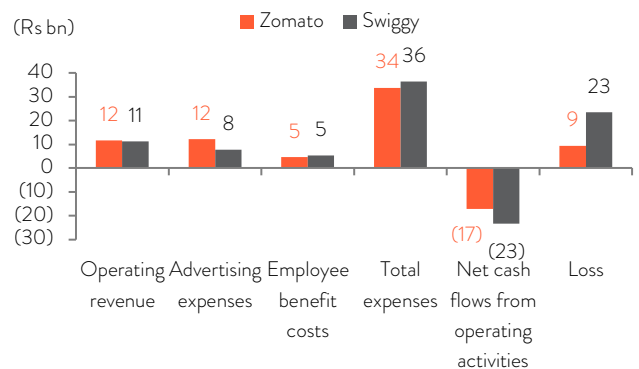
Swiggy leads in terms of revenue due to a higher number of orders and average order size, but Zomato is quickly headed for a turnaround in profitability by virtue of aggressive cost control measures. Its total expenses and employee costs have been lower than Swiggy’s, resulting in lower cash burn.

FIG 29 – 2020 FINANCIALS: ZOMATO BETTER AT MANAGING COSTS



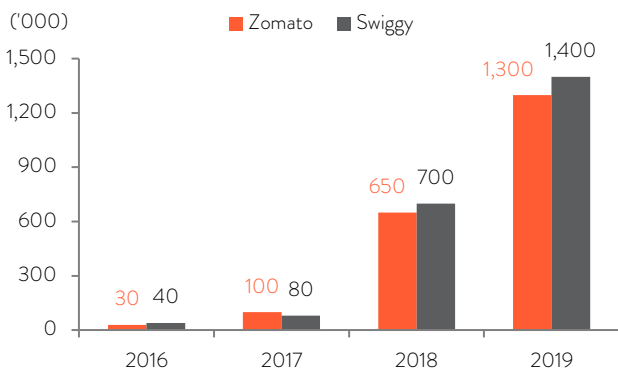
Source: BOBCAPS Research, Company, TechCircle

FIG 30 – 2019 FINANCIALS: ZOMATO’S EBITDA LOSS PRE-PANDEMIC WAS FAR LOWER



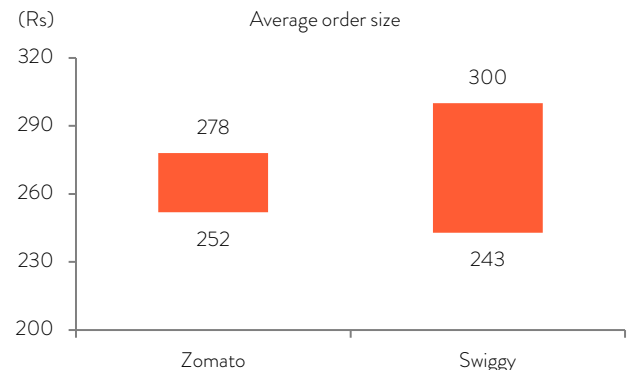
Source: BOBCAPS Research, Company, TechCircle

FIG 31 – ZOMATO’S ORDER COUNT PER DAY LAGS THAT OF SWIGGY...



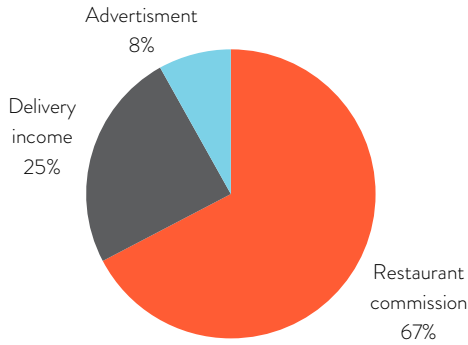
Source: BOBCAPS Research, Company

FIG 32 – ...HOWEVER, ORDER SIZE IS ALMOST AT PAR



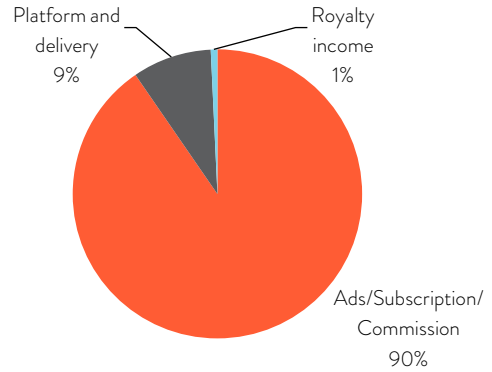
Source: BOBCAPS Research, Company

FIG 33 – LOWER-MARGIN DELIVERY INCOME FORMS 25% OF SWIGGY’S REVENUE, FY20



Source: BOBCAPS Research, Company

FIG 34 – ZOMATO EARNS HIGHER-MARGIN FEES FROM ADS, SUBSCRIPTIONS & COMMISSIONS, FY20



Source: BOBCAPS Research, Company

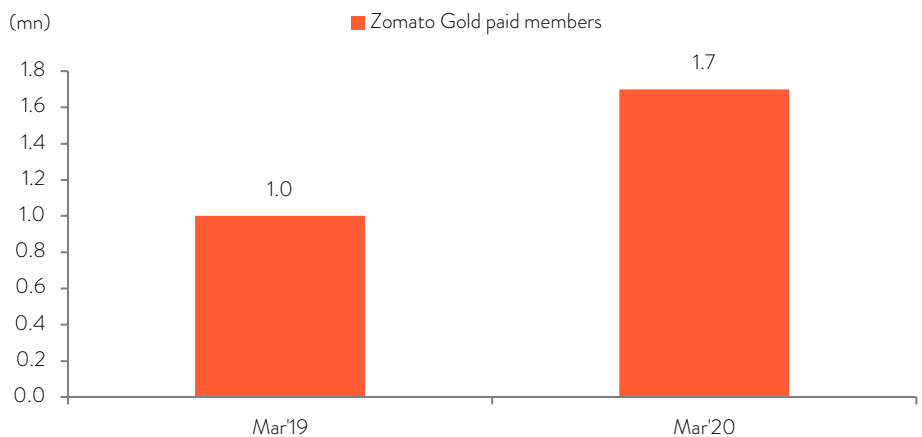
Loyalty programmes – Swiggy falters amid pandemic

Zomato Pro (erstwhile Zomato Gold)

Zomato launched its paid loyalty programme Zomato Gold in 2017, offering customers in-restaurant dining perks. In Q2FY19, the company extended its gold membership privileges to food deliveries. Under the programme, existing members of Zomato Gold shall have access to food delivery perks for no additional charge along with some FUP (fair usage policy) revisions to their existing membership.

Zomato Gold was recently rebranded Zomato Pro. The company has signed up ~50% more partner eateries on Pro than on Gold. All Gold members across 10 countries were upgraded to Pro in Aug’20, giving them access to exclusive delivery offers, over and above any deal available to other users, at an annual fee of Rs 1,800.

FIG 35 – ZOMATO PRO MEMBERS KEPT GROWING



Source: BOBCAPS Research, Company

Swiggy Super

Swiggy resumed its loyalty programme in Jul'20 after suspending it for two months due to Covid-led restrictions earlier in May. The company had hiked its 'super charge' in Jan'20 from Rs 149 to Rs 349/month. This fee covers all charges under its free delivery programme, including late-night surcharge, fixed restaurant fee and delivery fee.

Customers in ~60 cities can now pay Rs 1,800/year for Zomato Pro. Similarly, Swiggy Super charges between Rs 89-149/month for a monthly subscription based on the type of plan.

FIG 36 – ZOMATO GOLD VS. SWIGGY SUPER

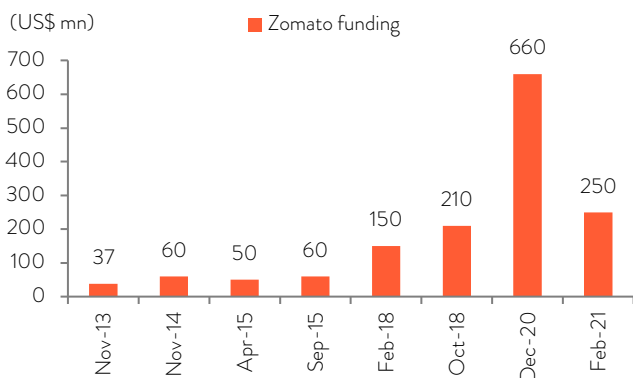
	Zomato Gold/ Pro	Swiggy Super
No of subscriptions in FY20 (mn)	1.7	NA
Payment period	Annual	Monthly
Annual subscription fees (Rs)	1,800	1,800
Remarks	Started as dine-in offer; later included deliveries	Designed for home deliveries, to encourage repeat orders

Source: BOBCAPS Research, Company

Funding – Zomato now in the lead

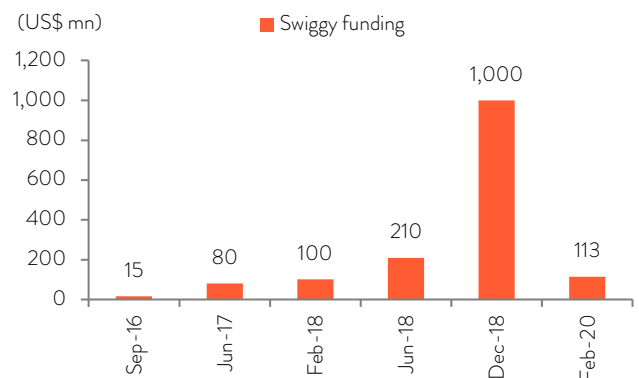
Swiggy remained ahead in terms of funding until Zomato’s second-last capital raise of US\$ 660mn from ten different investors in Dec'20, which took its valuation to US\$ 5.15bn. This was followed by a few more investors pumping in an additional US\$ 250mn in Feb'21, leading to Zomato’s current valuation of US\$ 5.4bn. The rise in funding can be attributed to the company’s faster trajectory to profitability and quicker recovery from the Covid slump.

FIG 37 – ZOMATO’S FUNDING ROUNDS



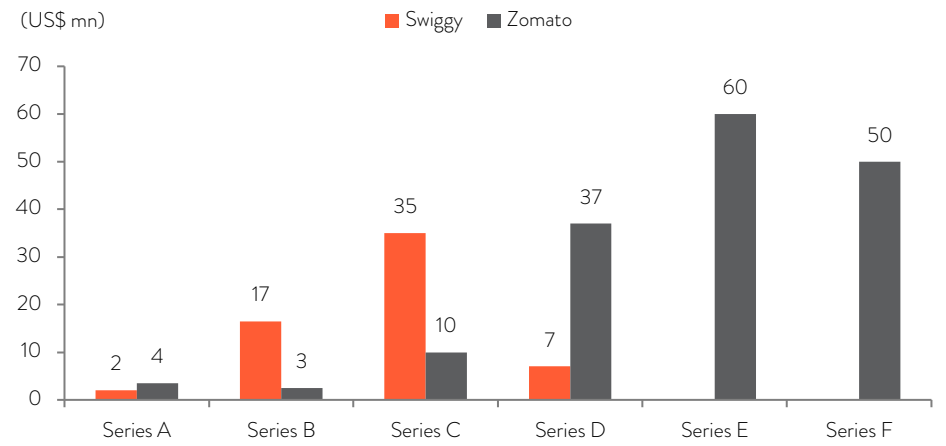
Source: BOBCAPS Research

FIG 38 – SWIGGY’S FUNDING ROUNDS



Source: BOBCAPS Research

FIG 39 – SWIGGY VS. ZOMATO FUNDING BEFORE 2016



Source: BOBCAPS Research

Retain SELL on Info Edge

Zomato has been one of Info Edge's (INFOE) best investments – after the foodtech company's last US\$ 250mn funding round, INFOE's stake stands at 18.4% vs. 19% earlier. Incorporating latest valuations of US\$ 5.4bn for Zomato and US\$ 2.4bn for the PolicyBazaar investment, as well as subdued growth numbers coming from its core businesses of Naukri.com and 99acres.com, we arrive at a Mar'22 target price of Rs 2,780 for INFOE (vs. Rs 2,680 earlier when Zomato was valued at US\$ 3.9bn and Policy Bazaar at US\$2bn).

We have ascribed multiples of (1) 45x EPS for Naukri.com (vs. 42x before) which is the pre-Covid five-year average adj. P/E of INFOE's core business (excludes Zomato and PolicyBazaar), (2) 11x sales for 99acres, and (3) 9x sales for Jeevansaathi. Our target multiples for 99acres and Jeevansaathi are at 40-50% discount to Naukri's sales multiple of 17.8x because of their relatively inferior performance (negative EBITDA margins and lower market share).

INFOE has indicated that it will not be selling its stake in Zomato's upcoming IPO. For secondary market investors, we believe that a direct play through Zomato (via the IPO) will offer higher gains than via INFOE. Moreover, Zomato's IPO is likely to reduce INFOE's appeal as a route to its star investments now that investors have the option for a direct purchase.

FIG 40 – INFOE: REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)
Revenue	12,486	11,103	(11)	14,186	12,533	(12)	16,509	14,633	(11)
YoY growth (%)	(1.9)	(12.8)	-	13.6	12.9	-	16.4	16.8	-
EBITDA	3,817	3,117	(18)	4,281	3,901	(9)	5,221	4,747	(9)
EBITDA margin (%)	31	28	-	30	31	-	32	32	-
PAT	3,525	3,043	(14)	4,236	4,002	(6)	4,960	4,661	(6)
EPS (Rs)	27.6	23.8	(14)	33.1	31.3	(5)	38.8	36.5	(6)

Source: BOBCAPS Research

FIG 41 – SOTP VALUATION

SOTP valuation	Method	Value (Rs mn)	% stake	Value of the stake (Rs mn)	Value per share (Rs)	% of total value
Naukri.com	45x P/E	180,200	100	180,200	1,397	50
99acres	11x Sales	29,530	100	29,530	229	8
Jeevansaathi	9x Sales	9,675	100	9,675	75	3
Zomato	Valued at US\$ 5.4bn – Dec'20	410,400	18	75,514	585	21
PolicyBazaar	Valued at US\$ 2.4bn – as implied by latest transaction	182,400	14	24,624	191	7
Other investments	Book value	3,712	na	3,712	29	1
Cash and Cash equivalent	Book value	35,000	100	35,000	271	10
Target price (Rs/sh)					2,780	

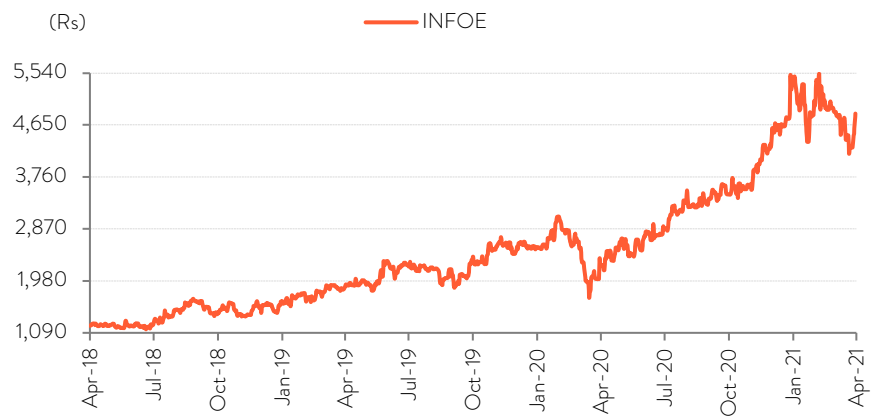
Source: BOBCAPS Research

Expect a slightly improved Q4 for INFOE

We expect INFOE to register a sales decline of 6.5% YoY in Q4FY21 due to a high base of last year and continued YoY declines in both billing (-4.1%) and deferred revenues (-13.8%) in Q3FY21. Sustained weakness in real estate (99 acres) and the job market (Naukri.com) is expected to weigh heavy on the company’s Q4 performance. The IT and banking sectors are likely to perform better than the rest for Naukri. Jeevansaathi.com is projected to do marginally better than the company’s other platforms, continuing from Q2FY21.

We expect INFOE’s EBITDA margin to improve to ~29% (vs. 25% in Q3FY21) due to a lower revenue decline vs. Q3FY21. Increased Zomato funding (latest round of ~US\$ 5.4bn) and rising insurance demand (PolicyBazaar) are the few potential positives.

FIG 42 – STOCK PERFORMANCE



Source: BOBCAPS Research

FINANCIALS (STANDALONE) – INFO EDGE

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	10,982	12,727	11,103	12,533	14,633
EBITDA	3,414	4,027	3,117	3,901	4,747
Depreciation	204	414	389	439	512
EBIT	3,210	3,614	2,729	3,463	4,234
Net interest income/(expenses)	(1)	(67)	(58)	(66)	(77)
Other income/(expenses)	1,112	876	1,396	1,951	2,071
Exceptional items	(160)	(1,233)	0	0	0
EBT	4,162	3,190	4,066	5,348	6,229
Income taxes	1,169	1,133	1,023	1,346	1,568
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	2,992	2,057	3,043	4,002	4,661
Adjustments	160	1,233	0	0	0
Adjusted net profit	3,152	3,290	3,043	4,002	4,661

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	617	697	608	687	802
Other current liabilities	5,011	5,758	5,024	5,670	6,620
Provisions	496	496	496	496	496
Debt funds	4	4	4	4	4
Other liabilities	42	42	42	42	42
Equity capital	1,220	1,220	1,281	1,281	1,281
Reserves & surplus	22,019	23,464	44,442	47,452	50,958
Shareholders' fund	23,239	24,684	45,723	48,733	52,239
Total liabilities and equities	29,410	31,682	51,898	55,633	60,203
Cash and cash eq.	683	2,876	23,067	26,756	31,271
Accounts receivables	60	70	61	69	80
Inventories	0	0	0	0	0
Other current assets	14,826	14,826	14,826	14,826	14,826
Investments	10,333	10,333	10,333	10,333	10,333
Net fixed assets	500	570	603	641	685
CWIP	20	20	20	20	20
Intangible assets	49	49	49	49	49
Deferred tax assets, net	416	416	416	416	416
Other assets	2,524	2,524	2,524	2,524	2,524
Total assets	29,410	31,682	51,898	55,633	60,203

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	3,055	2,470	3,431	4,441	5,173
Interest expenses	(986)	(67)	(58)	(66)	(77)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	860	817	(814)	717	1,053
Other operating cash flows	28	0	0	0	0
Cash flow from operations	2,956	3,221	2,559	5,092	6,149
Capital expenditures	(259)	(484)	(422)	(476)	(556)
Change in investments	8,164	0	0	0	0
Other investing cash flows	(10,137)	67	58	66	77
Cash flow from investing	(2,233)	(417)	(364)	(410)	(479)
Equities issued/Others	27	0	18,750	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(138)	0	0	0	0
Dividends paid	(670)	(611)	(754)	(992)	(1,155)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(781)	(611)	17,996	(992)	(1,155)
Changes in cash and cash eq.	(57)	2,193	20,191	3,690	4,515
Closing cash and cash eq.	683	2,876	23,067	26,756	31,271

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	23.2	15.9	23.6	31.0	36.1
Adjusted EPS	24.4	25.5	23.6	31.0	36.1
Dividend per share	6.0	4.2	5.9	7.8	9.0
Book value per share	180.2	191.4	354.5	377.8	405.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	56.8	49.0	56.1	48.8	41.0
EV/EBITDA	182.7	154.9	199.8	156.8	126.3
Adjusted P/E	198.1	189.9	205.3	156.1	134.0
P/BV	26.9	25.3	13.7	12.8	12.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	75.7	103.1	74.8	74.8	74.8
Interest burden (PBT/EBIT)	129.6	88.3	149.0	154.4	147.1
EBIT margin (EBIT/Revenue)	29.2	28.4	24.6	27.6	28.9
Asset turnover (Revenue/Avg TA)	39.4	41.7	26.6	23.3	25.3
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.2	1.1	1.1
Adjusted ROAE	14.2	13.7	8.6	8.5	9.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	20.0	15.9	(12.8)	12.9	16.8
EBITDA	14.8	18.0	(22.6)	25.2	21.7
Adjusted EPS	15.2	4.4	(7.5)	31.5	16.5
Profitability & Return ratios (%)					
EBITDA margin	31.1	31.6	28.1	31.1	32.4
EBIT margin	29.2	28.4	24.6	27.6	28.9
Adjusted profit margin	28.7	25.8	27.4	31.9	31.9
Adjusted ROAE	14.2	13.7	8.6	8.5	9.2
ROCE	13.2	8.4	8.5	8.4	9.1
Working capital days (days)					
Receivables	2	2	2	2	2
Inventory	0	0	0	0	0
Payables	19	19	21	19	19
Ratios (x)					
Gross asset turnover	21.8	23.8	18.9	20.2	22.1
Current ratio	2.5	2.6	6.2	6.1	5.8
Net interest coverage ratio	0.0	0.0	0.0	0.0	0.0
Adjusted debt/equity	0.0	(0.1)	(0.5)	(0.5)	(0.6)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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